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The Role of Unethical Behavior in Moderating the Influence of Governance, Risk Management, and Compliance on Financial Fraud Prevention in Indonesian Local Governments

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ABSTRACT

This study examined the moderation effect of unethical behavior on the relationship of governance, risk management, and compliance on financial fraud prevention in the context of Indonesian Local Governments. Focusing on Regional Apparatus Organizations and local government auditor offices, the research comprised of a robust sample of 120 respondents. Employing the rigorous Structural Equation Modeling-Partial Least Square (SEM-PLS) with WarpPLS software for analysis, the findings revealed a significant weakening effect of unethical behavior on the relationship between governance, risk management, and compliance and financial fraud prevention in the local government setting. Notably, this research contributes to the limited literature on governance, risk management and compliance in the realm of local government studies. Moreover, by incorporating a moderating variable, this study enhances its academic significance, as it addresses the pervasive issue of unethical conduct that permeates the local government landscape and further engages with prior debates in the field.

Keywords: Governance, Risk management, Compliance, financial fraud prevention, unethical behavior

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INTRODUCTION

Government institutions are one of the sectors that experience significant losses due to fraud. Based on the Association of Certified Fraud Examiners (ACFE) report, the median loss experienced by government agencies reached $ 138,000 with an incident percentage of 18%; in contrast, local governments experienced losses of $ 125,000 (ACFE, 2022). Similar results have occurred in Indonesia, where financial fraud is frequent in government institutions (ACFE, 2019). In Indonesia, fraud cases happen not only in the central government but have spread to regional and village governments (ICW, 2022). So, the chances of fraud in local governments are pretty significant and very detrimental to local governments. In terms of the scheme, financial fraud is a scheme that often occurs and is the most harmful to local governments.

To reduce fraud, local governments can implement financial fraud prevention (ACFE, 2020). ACFE (2022) reports that organizations can use several ways to prevent fraud, such as a code of ethics, internal audit, internal control, hotlines, management reviews, anti-fraud training, anti-fraud policy, and risk management. Other financial fraud prevention strategies can use good governance (Basri et al., 2021; Nagar & Raithatha, 2016; Onesti & Palumbo, 2023; Rochmawati et al., 2020), risk management (Abdulmalik et al., 2020; Dzomira, 2015; Hess & Cottrell, 2016; Syrová & Špička, 2023; Tarjo et al., 2021), and increase employee compliance (Asy'ari et al., 2013; Hauser, 2019; Jamil et al., 2021). According to Tarantino (2008), governance, risk management, and compliance (GRC) have good synchronization in preventing fraud. So, GRC functions to prevent fraud in local governments. Each element has a function: governance functions to control the organization, risk management to manage potential risks and fraud, and compliance to make all employees comply with the law and implement governance and risk management.

GRC is a failure and unsuitable for preventing fraud (Hunt, 2014). Tarjo et al. (2022) reported that the implementation of GRC in local government failed in the field. A survey reported that the average organization still needs to learn about GRC, especially the compliance component that is not suitable for implementation (PwC, 2021). Hermawan & Novita (2021) found that the compliance component failed to prevent fraud. Ahmed & Manab (2016)

argued that the problem of lousy behavior causes GRC, especially the code of ethics and compliance, not to work correctly. A similar thing happened to the Enron company, where governance (Dibra, 2016; Khan et al., 2022), risk management (Ailon, 2012; Kotb et al., 2020), and compliance (Sokol, 2016; Zandstra, 2002) did not function to prevent fraud. Thus, GRC practices in government still need to improve. One of the factors causing the failure of GRC implementation is compliance. Failure of the compliance function will affect the other two functions: governance and risk management. So, implementing GRC in local governments cannot improve fraud prevention.

The government sector has various problems, one of which is unethical behavior which destroys the morale and ethics of local government employees (Ariyanto & Bone, 2020; Siregar & Tenoyo, 2015). The Indonesian fraud survey reports that the main problem causing fraud to mushroom in local governments is highly unethical behavior (ACFE, 2019). The latest survey also proves that unethical behavior causes fraud prevention to malfunction, especially GRC (ACFE, 2022). In line with the survey results, many studies have proven that unethical behavior is the cause of GRC's failure to prevent fraud (Bahri et al., 2021; Jackson, 2013; Power, 2013). Hamid et al. (2020) argued that unethical behavior can moderate the GRC relationship and prevent financial fraud. Other research have revealed that unethical behavior does not affect the causes of failure of governance (Putra et al., 2021), risk management (Cohen et al., 2010), compliance (Kaptein, 2011) in preventing fraud. However, several researchers report that unethical behavior can weaken the role of governance (Ashby et al., 2012; Biggerstaff et al., 2015; King, Dwyer, & Prideaux, 2006; Safdar et al., 2019), risk management (Fakhfakh & Jarboui, 2020; Gullkvist & Jokipii, 2013; Sandhu, 2020; Umphress et al., 2010; Wokukwu, 2015; Wood & Lewis, 2017), and compliance (Gabbioneta et al., 2013; Kehinde, 2010; Sara et al., 2023) in preventing fraud. Thus, there is debate among several researchers regarding the role of unethical behavior in moderating the effect of GRC on financial fraud prevention. Therefore, this study will conduct an empirical test regarding the role of unethical behavior as a moderator in implementing GRC to prevent financial fraud in local governments.

This study had two research gaps that distinguish it from previous studies. First, this study conducted an empirical test regarding the effect of GRC on financial fraud prevention in local governments. The reason behind

this gap is that there is still not much empirical research on GRC, especially in local governments. In addition, empirical research on the effect of GRC on fraud prevention in local governments is still scarce. Lastly, there are still many debates between those who support and reject the influence of GRC on fraud prevention, so this issue is still worth re-examining. Second, this study added a moderating variable to increase its uniqueness. In addition, the existence of a moderator variable can be an effort to complement the previous model and an attempt to answer the debate that has occurred. This study used unethical behavior as a moderator. The reason for this selection was that unethical behavior was an actor in the GRC application's failure and the mastermind behind the weakness of GRC and the fraud prevention system.

The theoretical contribution made by this study is the addition of new literature on GRC in local governments. GRC research is new research in the government sector. The application of GRC is usually in companies, but this study tried the GRC concept of for local governments. This research initiated local governments to implement GRC to improve the fraud prevention system. The practical contribution of this research was to provide a GRC model that is applicable and suitable for local governments. GRC implementation in local governments is a good thing to solve the problem of fraud in government. In addition, this research provides a warning sign for the Indonesian government to be careful about unethical behavior, especially as the culture of fraud has mushroomed in local governments. In addition, Indonesia is experiencing a behavioral crisis, and a culture of fraud is thriving. Therefore, the government must be careful about unethical behavior in Indonesia and in every region in Indonesia so that the GRC implementation goes well and can improve financial fraud prevention.

LITERATURE REVIEW

Theory of Planned Behaviour

This study used the Theory of Planned Behaviour (TPB) to explain the factors that motivate an individual's intention to engage in a behavior. According to the TPB, attitudes perceived behavioral control, and subjective norms are the three main predictors of employee behavioral intentions

(Ajzen, 1991). If a person has a solid intention to engage in a behavior, there is a high probability of engagement. Several studies have expanded the TPB with fraudulent financial reporting intentions (Awang & Ismail, 2018), ethical behavior of management (Kashif et al., 2018), tax fraud (Azrina Mohd Yusof & Ling Lai, 2014), intention to commit corruption (Zulaikha et al., 2021), love of money (T. L.-P. Tang & Chiu, 2003; T. L. P. Tang & Chen, 2008), crime (Chaturuka et al., 2020), scams (Ouyang et al., 2020). On the other hand, several studies have examined the problem of intention to prevent and avoid fraud. These studies have highlighted the intention to commit a whistleblower (Anita et al., 2021; Hapsari & Supriyono, 2020; Owusu et al., 2020; Tarjo et al., 2019; Wahyuni et al., 2021), religiosity (Sharma et al., 2022), awareness (Seong & Hong, 2021), morale (Valentine & Hollingworth, 2012), and leadership (Abdillah et al., 2021; Madanchian et al., 2016). In addition, several studies have focussed on governance (Dion, 2008), risk management (Dangi et al., 2020), compliance (Amaliyah, 2019), dan unethical behaviour (Haron et al., 2011).

GRC is related to the intention to commit fraud (Tarantino, 2008). The application of governance aims to regulate the organization. Good governance will produce a well-organized organization. Risk management plays a role in assessing and responding to organizational risks. Compliance ensures that the organization has rules suitable for the organization and makes employees comply. These three components are regulated to reduce the intention to commit fraud and improve the financial fraud prevention system. However, there are things that spoil this whole plan, namely, unethical behavior. Unethical behavior is related to someone's intention to commit fraud (Awang & Ismail, 2018). Unethical behavior can destroy GRC and fraud prevention systems. Therefore, the existence of unethical behavior can increase employee intentions to commit acts of fraud. Thus, the TPB is suitable to be a grand theory in this study. The TPB can explain all components of this research, such as GRC, financial fraud prevention, and unethical behavior.

HYPOTHESIS DEVELOPMENT

Governance, Unethical Behavior, and Financial Fraud Prevention

Governance discusses an organization's processes, systems, and controls, both public and private (Tarantino, 2008). Governments often govern the processes and systems of government, which refer to the relationship between those who govern and society. At the political level, there is a relationship between the government and its citizens. It includes three requirements: to know the current situation, where it should go, and how things are proceeding. It also involves three areas of decision-making, such as who controls, who gets regulated, and who uses what resources/ assets. Requirements and decision-making apply to governments and companies (Tarantino, 2008). Wardhani et al. (2017) said that governance in government has five main components, namely democracy, transparency, accountability, legal culture, justice, and equality.

Rochmawati et al. (2020) argued that applying the principles of transparency, accountability, responsibility, independence, and fairness can prevent fraud. Halbouni et al. (2016) argued that financial accountants and internal and external auditors feel that corporate governance through audit committees is essential in preventing and detecting fraud. Khoufi & Khoufi (2018) showed that the suitable composition of governance increases a board's effectiveness in monitoring management to prevent fraudulent financial reporting. Onesti & Palumbo (2023) found the increasing importance of good governance and proposed the emerging role of tone at the top as one of the main drivers of good governance to prevent fraud. Rashid et al. (2022) revealed that the internal control system is the most effective approach to preventing and detecting fraud which is a component of good governance. Akyol (2020) highlighted the importance of designing their governance structures with attention to how to use them to prevent future fraud.

On the other hand, an Indonesian fraud survey found that unethical behavior among local government leaders can undermine good governance (ACFE, 2019). Biggerstaff et al. (2015) argued that the unethical behavior of a leader can justify any means to benefit himself, so the habit of fraud is

unconsciously created and causes the erosion of governance and the fraud prevention system. Ashby et al. (2012) explained that unethical behavior could create a culture of fraud and have adverse effects on organizations, making governance and prevention systems ineffective. King et al. (2006) found that unethical behavior can weaken the implementation of governance, so the influence of governance is not optimal for preventing financial fraud.

Based on the TPB point of view, the implementation of governance positively affects fraud prevention. Governance can weaken the intention to commit fraud. On the other hand, the existence of unethical behavior causes the employee's intention to commit fraud to increase. In addition, unethical behavior can weaken the implementation of governance. Regardless of the implementation of governance aimed at managing the organization, habits, and culture of unethical behavior can weaken and even cause governance to be unable to regulate the organization. Thus, unethical behavior can weaken governance implementation in the financial fraud prevention system. Therefore, this study proposed the following hypothesis:

H1: Unethical behavior can weaken the influence of governance in preventing financial fraud.

Risk Management, Unethical Behavior, and Financial Fraud Prevention

Risk usually refers to the possibility of loss or injury due to an activity or by a person (Tarantino, 2008). Risk management seeks to identify, assess and measure risks and then develop countermeasures to handle them. This step does not mean eliminating the risk but instead trying to reduce and minimize its impact. Risk is not something inherently wrong. All opportunities come with some degree of risk. Risk management generally consists of several principles: Governance and Culture, Strategy and Objective-Setting, Performance, Review and Revision, and Information, Communication, and Reporting (COSO, 2017).

Shapiro (2014) defined risk management as a design or guide to prevent financial fraud. Hermawan & Novita (2021) said that risk management, which consists of operational, financial, and information risks, has a significant influence in increasing efforts to minimize the potential for

fraud. Dzomira (2015) argued that risk management can improve the order in the organization, starting from the leader to his subordinates, so that the prevention system can run well. Finally, Tarjo et al. (2021) found that risk management can improve financial fraud prevention in local governments.

On the other hand, Tarjo et al. (2022) highlighted poor risk management practices, even though the local government had implemented a risk management system under existing regulations. Ariyanto & Bone (2020) said that poor ethics make the application of risk management far from expectations. Poor ethics in organizations arise due to unethical behavior (Sandhu, 2020). Unethical behavior harms the application of risk management and will eventually affect the fraud prevention system (Fakhfakh & Jarboui, 2020; Umphress et al., 2010; Wokukwu, 2015). Gullkvist & Jokipii (2013) emphasized that unethical behavior causes risk management to not function properly and even experience difficulties in carrying out the prevention function. Wood & Lewis (2017) highlighted the influence of unethical behavior, which can weaken the function of risk management and financial fraud prevention.

From the point of view of the TPB, the application of risk management can reduce employee intentions to commit fraud to impact a regional government's financial fraud prevention system positively. Risk management functions in assessing and how to respond to acts of financial fraud. This function makes the fraudster unable to move. However, the application of risk management can weaken when the habit of unethical behavior proliferates within the organization. Risk management that cannot stem unethical behavior is challenging for the organization. This habit causes the standard of risk assessment to be lower so that much fraud occurs within the organization. Thus, unethical behavior can weaken the role of risk management in increasing the financial fraud prevention. Therefore, this study proposed the following hypothesis:

H2: Unethical behavior can weaken the effect of risk management in preventing financial fraud.

Compliance, Unethical Behavior, and Financial Fraud Prevention

Compliance is a relatively straightforward concept of action under established laws, regulations, protocols, standards, and specifications (Tarantino, 2008). The critical issue concerns non-compliance costs, which can be civil, criminal, reputational, financial, or market. Compliance generally includes adherence to external laws (enacted by legislatures) and regulations (created by regulatory agencies), and internal protocols such as policies and procedures. Internal control is a term widely used around financial reporting that encourages implementing environmental and technical compliance. Adopting risk management frameworks such as COSO has provided the concept of internal control. Some financial control regulations generally adopt a COSO or COSO-like approach to internal control. Internal control usually includes a process influenced by the organization's board of directors, management, business owners, and technology users, designed to provide reasonable assurance in achieving its objectives (Tarantino, 2008).

Wilhelm (2004) stated that compliance is essential for good governance and risk management. Compliance with laws (Brooks et al., 2021) and standard procedures (Prenzler, 2020) can improve fraud prevention. In addition, compliance training can help organizations avoid gray zones and potential fraud (Hauser, 2019). Clemente et al. (2018) argued that compliance functions to maintain the quality of organizational performance and plays a role in monitoring and internal auditing. Robina-Ramírez et al. (2021) said that compliance can prevent fraud.

Hermawan & Novita (2021) highlighted compliance practices that are still bad in Indonesia. Robina-Ramírez et al. (2021) focussed on compliance practices in the future because the environment and organizational culture heavily influence compliance. In line with that, weak compliance practices are caused by unethical behavior (Sara et al., 2023). Sara et al. (2023) continued that unethical behavior can damage employee morale, so they disobey the rules. Gabbioneta et al. (2013) highlighted unethical behavior practices that lead to illegal actions and even made regulations that aimed to defeat illegal actions. The existence of unethical behavior causes compliance to weaken and experience setbacks in preventing financial fraud (Kehinde, 2010).

Based on the explanation above, compliance allows employees to comply with the organization's rules. From the point of view of the TPB, strict adherence to laws and regulations makes employees less likely to have the intention to commit fraud. However, the emergence of unethical behavior driven by self-interest makes employees willing to commit fraud. Even leaders with unethical behavior can change the law in the organization to benefit them. The breakdown of regulations certainly has an impact on compliance. An unethical behavior culture causes low compliance, so fraud prevention does not work correctly. Therefore, unethical behavior can weaken compliance and affect the financial fraud prevention system. Therefore, this study proposed the following hypothesis:

H3: Unethical behavior can weaken the effect of compliance in preventing financial fraud

METHODOLOGY

Samples and Data

This research used quantitative methods. The source of data came from distributing questionnaires. The object of this research was the Regional Apparatus Organization and local government inspectorate offices in Indonesia. The sample selection technique used purposive sampling. This study used several sample criteria, namely (1) expenditure treasurer, (2) budget user, (3) regional work unit finance officials, (4) regional government internal auditors, (5) commitment-making officials, (6) implementation supervisors government affairs in the regions (7) revenue treasurer, (8) activity technical implementation officer, and (9) others. Based on the results of selecting the sample using purposive sampling, the number of respondents who became the research sample was 120. The following is a description of the respondents in this study:

Tabel 1: Research Sampel

Respondent	Total Sample
Expenditure treasurer	16
Budget user	6
Regional work unit finance officials	6
Local government inspectorate auditor	25
Commitment officer	2
Superintendent of the implementation of government affairs in the region	7
Admissions treasurer	20
The official technical performance of activities	7
Other	31
Total	120

Variable Measurement

This study used three types of variables, namely dependent, independent, and moderating. The independent variables of this research were Governance, Risk Management, and Compliance. This study used a questionnaire from Wardhani et al. (2017). to measure governance. Local government governance comprised five main components, namely democracy, transparency, accountability, legal culture, and justice. Therefore, this study used six questions to measure the implementation of governance in local governments.

Furthermore, risk management used a questionnaire from Oulasvirta & Anttiroiko (2017). Risk management measures an organization's ability to assess any potential fraud risk and the organization's response. This study used six questions to measure risk management. Compliance functions to regulate and measure compliance with existing laws and regulations in local government. The compliance questionnaire consisted of three questions. All independent variables used a Likert scale of one (strongly disagree) to five (strongly agree).

The dependent variable was financial fraud prevention. The fraud prevention questionnaire was taken from ACFE (2020); CIMA (2009); KPMG (2014); Wangu (2021). Fraud prevention aims to prevent any potential fraud that occurs within government organizations. Thus, this study used five questions to assess the application of risk management. The Linkert scale used a scale of one to five.

Finally, the moderating variable was unethical behavior. Unethical behavior refers to the habits of employees who are dishonest and have bad morals. The unethical behavior questionnaire was taken from Gullkvist & Jokipii (2013). Thus, the unethical behavior questionnaire consisted of three questions with a Likert scale of one to five.

Data Analysis Techniques

This research used Structural Equation Modeling-Partial Least Square (SEM-PLS). SEM-PLS statistic application using WarpPLS 7.0. SEM-PLS testing consisted of two stages: the outer and inner models (Kock, 2015, 2020). The following was the research model:

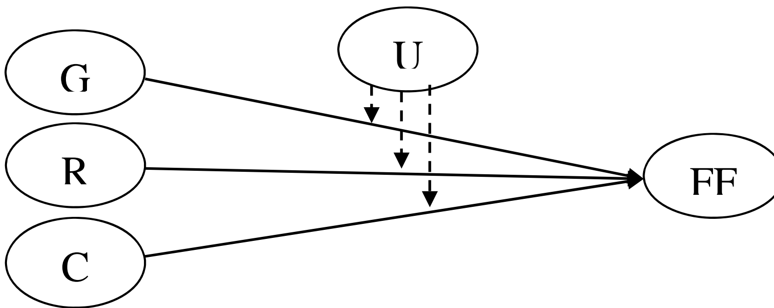

Figure 1: Research Model

Where:

FFSP: fraudulent financial statement prevention;
G: governance;
R: risk management;
C: compliance; And
UB: unethical behavior.

RESULTS AND DISCUSSION

Research results

This study used two stages of testing, namely, the outer model test and the inner model test. The outer model consisted of two main tests: validity

and reliability. Validity test used the convergent validity and discriminant validity tests. At the same time, the reliability test used composite reliability and Cronbach's alpha.

The convergent validity test used the loading factor value and the Average Variance Extracted (AVE) (Kock, 2020). As shown in Table 2 convergent validity had a loading factor value of > 0.7, while the AVE value was > 0.5. These results proved that the research questionnaire was valid with convergent validity. On the other hand, discriminant validity used the AVE square root. As shown in Table 3 all AVE square root values were more significant than the values of each construct, meaning that they passed the discriminant validity test. Thus, the research data was valid with convergent and discriminant validity.

The reliability test used the composite reliability test and Cronbach's alpha. Kock (2020) stated that the combined reliability value must be more than 0.7, while Cronbach's alpha value is more significant than 0.6. As shown in Table 2 the composite reliability value of G was 0.908, R is 0.898, C was 0.933, FFSP was 0.887, and UB is 0.900. At the same time, Cronbach's alpha value for each variable was 0.878 for G, 0.830 for R, 0.914 for C, 0.841 for FFSP, and 0.833 for UB. Thus, the questionnaire given to respondents was a reliable one.

Table 2: Validity Convergent, Composite Reliability, and Cronbach's Alpha

Question	Loading Factor	AVE	Composite Reliability	Cronbach's Alpha
G1	(0.754)	0.662	0.908	0.878
G2	(0.805)			
G3	(0.752)			
G4	(0.738)			
G5	(0.847)			
G6	(0.830)			
C1	(0.815)	0.747	0.933	0.841
C2	(0.890)			
C3	(0.886)			

R1	(0.884)	0.700	0.898	0.830
R2	(0.862)			
R3	(0.828)			
R4	(0.827)			
R5	(0.781)			
R6	(0.834)			
FFSP1	(0.736)	0.612	0.887	0.841
FFSP2	(0.746)			
FFSP3	(0.784)			
FFSP4	(0.802)			
FFSP5	(0.840)			
UB1	(0.872)	0.750	0.900	0.833
UB2	(0.848)			
UB3	(0.877)			

Table 3: Square Root AVEs

	G	C	R	FFSP	UB
G	(0.789)				
C	0.694	(0.864)			
R	0.665	0.725	(0.836)		
FFSP	0.569	0.521	0.574	(0.783)	
UB	0.614	0.650	0.633	0.529	(0.866)

Note: “()” is square root AVEs

The inner model consisted of several tests, such as the goodness fit model, r-square, q-square, and path efficiency. Table 4 test results show that all suitable model tests are appropriate for the r-square difficulty using the value of r-square and adj. r-square. As shown in Table 4 the r-square value was 0.770 with adj. r-square was 0.758, meaning that latent variables had a significant influence. In line with the r-square results, the q-square test value was 0.455, meaning the predictive value was enormous.

Table 4: Goodness Fit Model Test, R-square, and Q-square

Test	Index	Score	Conclusion
Average path coefficient (APC)	P<0.05	0.170, P=0.014	Fit
Average R-squared (ARS)	P<0.05	0.424, P<0.001	Fit
Average adjusted R-squared (AARS)	P<0.05	0.393, P<0.001	Fit
Average block VIF (AVIF)	Acceptable if <= 5, ideally <= 3.3	3.531	Acceptable
Average full collinearity VIF (AFVIF)	Acceptable if <= 5, ideally <= 3.3	3.272	Ideally

Tenenhaus GoF (GoF)	Small >= 0.1, medium >= 0.25, large >= 0.36	0.584	Large
Sympson's paradox ratio (SPR)	Acceptable if >= 0.7, ideally = 1	0.833	Acceptable
R-square	Small >= 0.02, medium >= 0.15, large >= 0.35	0.770	Large
Adj. r-square	Small >= 0.02, medium >= 0.15, large >= 0.35	0.758	Large
Q-square	Small >= 0.02, medium >= 0.15, large >= 0.35	0.455	Large

The path efficiency test used the image from the warpPLS test results. These results were used as a reference to answer all hypotheses in this study. As shown in Figure 2 the effect of G on FFSP had a significance value of p <0.01 with a coefficient value of 0.26, meaning that there was a significant positive effect. Meanwhile, the significance value of the UB interaction showed a p-value <0.01 with a coefficient of -0.51, meaning that there was a meaningful negative relationship. Based on these results, UB can become a moderator for G and FFSP. A negative interaction value proved that the moderator had a negative effect. Thus, the first hypothesis was accepted.

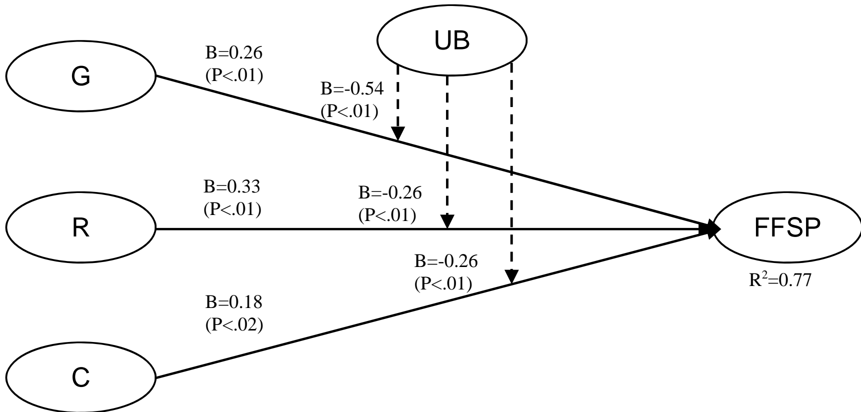

Figure 2: Path Coefficient

Furthermore, R had a significance value of p<0.01 to FFSP. At the same time, the value of the coefficient of R to FFSP was 0.33. These results proved that R was significantly positive for FFSP. On the other hand, the effects of UB's interaction produced different things. As shown in Figure 2 the significant value of UB's interaction with R and FFSP was p<0.01.

At the same time, the value of the interaction coefficient was -0.26. Based on the results in Figure 2, UB can be a moderator but had a negative effect. Thus, the second hypothesis was accepted.

Finally, as shown in Figure 2 the effect of C on FFSP had a significance $p<0.02$ with a coefficient value of 0.18, meaning that C had a significant positive impact on FFSP. Meanwhile, the UB variable as the moderator had a significance of $p<0.01$ with a coefficient value of -0.26, meaning that UB became a moderator, which had a negative impact. Based on these results, UB can weaken the positive influence of C on FFSP. Thus, the third hypothesis was accepted.

Discussion

Governance, Unethical Behavior, and Financial Fraud Prevention

We found that unethical behavior had a role in weakening the influence of governance on financial fraud prevention. As shown in Figure 2 governance had a positive effect on preventing financial fraud. Meanwhile, the interaction value of governance and unethical behavior in preventing financial fraud was below the alpha value with a negative approach (Figure 2). Thus, this study proved that unethical behavior can strengthen the influence of governance in preventing financial fraud.

This study's results align with the research of Rochmawati et al. (2020), that the five principles of governance are effective in preventing fraud. Other research have revealed that apart from these five principles, there are different roles in government, such as the role of internal audit (Halbouni et al., 2016), leadership style (Onesti & Palumbo, 2023), and board composition (Khoufi & Khoufi, 2018). Hamid & Nasih (2021) stated that unethical behavior can strengthen the influence of governance on preventing financial fraud. This research successfully answered the opinion that unethical behavior has an essential role in supporting and strengthening the implementation of governance so that the financial fraud prevention gets stronger. These results support several theories developed previously (Aditya & Hapsari (2020); Paranoan et al., (2018); Ultsani et al., (2019)), that unethical behavior can complement and strengthen implementation of governance.

The implementation of governance can make all organizational components reluctant to commit fraud, such as financial fraud (Ajzen, 1991; Cohen et al., 2010). Reluctance in the intention to commit fraud stems from the five main components of governance, namely democracy, transparency, accountability, legal culture, justice, and equality (Wardhani et al., 2017). The democracy component gives outsiders (such as the public) the right to participate in decision-making so that there is monitoring from stakeholders, in this case, the community, so that decisions are under organizational goals and free from potential fraud. Furthermore, the transparency of financial reports reduces the potential for financial fraud. The accountability component makes the organization accountable to stakeholders so that the organization cannot commit financial fraud arbitrarily. Legal culture is the central pillar so that all components of government organizations do not intend to commit fraud. Finally, fairness and equality in the organizational structure have a role in increasing fraud prevention, as Khoufi & Khoufi (2018) revealed. These five components make employees have no intention of committing financial fraud.

Even though, in theory, the implementation of governance aims to prevent fraud, in terms of practice, it is still not optimal (Ariyanto & Bone, 2020). Akyol (2020) highlighted the performance of governance in local governments and how effective governance is in preventing fraud in the present and the future. Biggerstaff et al. (2015) argued that unethical behavior can influence governance performance. The results of this study proved that unethical behavior can weaken the influence of governance on the financial fraud prevention. This finding aligns with Ashby et al. (2012) who found that unethical behavior creates a culture of fraud and dysfunctional governance. Other studies that have found something similar, such as King et al. (2006) who argued that unethical behavior can weaken governance and prevent financial fraud. From the TPB point of view, unethical behavior carries negative energy that encourages higher intentions to commit fraud. This reason is the background of unethical behavior that can weaken the positive effects of governance in preventing financial fraud.

Risk Management, Unethical Behavior, and Financial Fraud Prevention

The second finding of this study was that unethical behavior can weaken the effect of risk management on preventing financial fraud.

As shown in Figure 2 risk management significantly positively impacts prevention financial fraud. However, the results of the interaction of risk management and unethical behavior also had similar but different results, namely having a significant value in a negative direction. These results were under the answers of respondents who perceived that they had implemented risk management and financial fraud prevention but still showed unethical behavior. Thus, the researcher succeeded in addressing the second hypothesis.

This finding is similar to Shapiro (2014), that applying risk management is indeed necessary to prevent financial fraud. Of course, this is in line with Hermawan & Novita (2021), that assessing operational, financial, and information risks can reduce the potential for financial fraud. In addition, the results of this study are also in line with several previous studies that risk management has a significant positive effect on preventing financial fraud (Setapa et al., 2020 ; Dzomira, 2015; Jamil et al., 2021; Tarjo et al., 2021).

From the point of view of the TPB, the application of risk management can discourage employees from committing acts of fraud (Ajzen, 1991; Dangi et al., 2020)as risk management helps make all organizational components avoid fraud. Components in risk management such as a controlled environment, monitoring, risk assessment, communication and information, internal control, and response can prevent employees from committing fraud. The control environment creates an organizational environment free from fraud so that the chances of an intention to commit fraud will be minimal. Furthermore, complete monitoring is, of course, a supervisory tool for employees so that it can suppress the intention to commit fraud. Risk assessment functions to assess all potential fraud risks that will arise at this time and future fraud risks to reduce the intention to commit fraud. Communication and information are essential in communicating all existing information within the organization, including information regarding potential fraud. Internal control has a role in controlling all fraud risks within the internal organization. Finally, a response or follow-up for employees who have the potential to commit or have committed fraud provides a deterrent effect so that it can become an example for employees who are about to commit fraud and reduce the employee's intention to commit fraud.

On the other hand, we found evidence that unethical behavior has a role in weakening risk management. This result aligns with the findings of Ariyanto and Bone (2020), that unethical behavior is the leading actor in damaging risk management and preventing financial fraud. Unethical behavior has an impact on poor ethics and morals (Sandhu, 2020), damage to risk management (Fakhfakh & Jarboui, 2020; Umphress et al., 2010; Wokukwu, 2015), and a malfunction of risk management assessment so that it cannot respond to acts of fraud (Gullkvist & Jokipii, 2013). The findings of this study are also in line with the arguments of Wood & Lewis (2017), that unethical behavior creates a culture of fraud that can weaken risk management and financial fraud prevention systems.

From the point of view of the TPB, unethical behavior is one factor that can increase local government employees' intention to commit fraud. The habit of unethical behavior creates an oasis for fraudsters so that this habit influences risk management assessment. The worse the unethical behavior, the worse the risk management assessment. The collapse of risk management has an impact on the collapse of financial fraud prevention. Thus, the practice of unethical behavior makes employees addicted to committing fraud, thereby weakening the positive influence generated by risk management on financial fraud prevention.

Compliance, Unethical Behavior, and Financial Fraud Prevention

This study found that unethical behavior can weaken the effect of compliance on preventing financial fraud. As shown in Figure compliance has a positive effect on preventing financial fraud, while the interaction of compliance and unethical behavior has negative efficiency. The survey results also proved that respondents agreed with all the questions, including unethical behavior. Based on the test results, the third hypothesis was accepted.

This results align with several previous studies that compliance with laws and procedural standards can improve financial fraud prevention (Brooks et al., 2021; Prenzler, 2020; Wilhelm, 2004). In addition, compliance plays a role in avoiding gray zones while at the same time improving monitoring performance (Clemente et al., 2018; Hauser, 2019). Lastly, the findings of this study are similar to those of Robina-Ramírez, Isabel

Sánchez-Hernández, & Díaz-Caro (2021), that compliance is significantly positive for preventing financial fraud.

Compliance, in general, is compliance with regulations within organizations and government (Tarantino, 2008). Therefore, it is necessary to raise awareness of compliance in an organization to suppress the intention to commit fraud. This study emphasizes compliance with regional financial reporting. This compliance refers to the accuracy of financial reporting, reliable and bias-free financial information, fraud assessment, internal accounting controls, compliance with implemented governance and risk management, and accountability (Bajra & Čadež, 2020). These elements make it possible to reduce an employee's intention to commit financial fraud.

On the other hand, this research proved that unethical behavior harms compliance and financial fraud prevention. This result is under the findings of Hermawan & Novita (2021), that there are problems in compliance practices. Insufficient compliance stems from unethical behavior (Sara et al., 2023). The habit of unethical behavior damages employee morale (Sara et al., 2023), and illegal actions (Gabbioneta et al., 2013). It ends up weakening the implementation of compliance to affect the implementation of financial fraud prevention (Kehinde, 2010).

Based on the TPB, unethical behavior is terrible and can encourage employee intentions to commit fraud. The desire and intention to commit fraud will impact the intention to violate existing regulations; even the worst is making rules that can justify fraud; of course, this will damage the fraud prevention system in the local government. Thus, unethical behavior triggers the intention to commit fraud, weakening the influence of compliance on preventing financial fraud.

CONCLUSION

This empirical study successfully examined the impact of Governance, Risk Management, and Compliance (GRC) on financial fraud prevention, with unethical behavior acting as a moderator. Through direct and online surveys conducted across various offices in Indonesia, all research hypotheses were effectively addressed, leading to important insights and implications.

The first significant finding highlights the detrimental effect of unethical behavior on governance within local government entities. Unethical behavior proved to be a critical factor in undermining the implementation of effective governance practices, weakening its positive influence on financial fraud prevention. The second finding elucidates the adverse impact of unethical behavior on risk management processes. Unethical behavior introduces ambiguity and questions the credibility of risk assessments, further weakening the positive influence that risk management could have in preventing financial fraud.

Moreover, the third finding revealed the destructive consequences of unethical behavior on compliance relationships and financial fraud prevention efforts. Unethical behavior disrupts workplace norms and culture, leading to a negative effect on compliance, thereby diminishing its ability to effectively prevent financial fraud. In light of these findings, this study offers valuable theoretical implications by contributing to the literature on the GRC Theory within the context of local governments. Also, the research confirmed and substantiated theories and models recommended by prior studies, paving the way for potential avenues of future research. From a practical standpoint, the study provides local governments with actionable models to enhance the performance and effectiveness of GRC practices, ultimately strengthening their ability to prevent financial fraud.

One of the limitations of this research stems from the distribution of online questionnaires, which may not accurately represent the intended population's characteristics, namely the staff at the Regional Apparatus Organization and the local government inspectorate office. To address this limitation, future research should consider directly distributing questionnaires to respondents and conducting more in-depth examinations of their responses to enrich the research discussion. In order to enhance the comprehensiveness of future studies, it is suggested to include remote regional apparatus organizations in the research sample.

Additionally, employing qualitative methods alongside quantitative approaches can offer a more holistic understanding of the subject matter and compensate for the weaknesses of relying solely on online surveys. Furthermore, to delve deeper into employee behavior aspects, future research could incorporate variables related to religiosity, ethics, and local wisdom.

These additional variables may provide valuable insights into the underlying factors influencing unethical behavior and further strengthen the study's findings. Overall, this study's comprehensive examination of GRC, unethical behavior, and financial fraud prevention in Indonesian Local Governments adds valuable insights to the existing body of knowledge and offers practical implications to foster ethical practices and robust governance measures in combating financial fraud. The evidence and warning signs presented in this research underscore the critical importance for local governments to address and mitigate dangerous unethical behavior.

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